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**Western
Naco
Petroleums**
Limited

**Annual
Report**

for the year ended May 31st

1958

Western Naco Petroleums Limited

(Incorporated under the laws of the Province of Alberta)

Capitalization

5½% Secured Convertible Debentures	
Authorized	\$2,500,000
Outstanding	\$ 368,500
Common Shares without nominal or par value	
Authorized	4,000,000 shares
Outstanding	1,087,985 shares

Head Office

528 NINTH AVENUE WEST, CALGARY, ALBERTA

Directors

G. L. CRAWFORD	Calgary, Alberta
M. C. DEANS	Toronto, Ontario
L. F. FRANTZ	Calgary, Alberta
J. P. GALLAGHER	Calgary, Alberta
M. F. STRONG	Calgary, Alberta

Officers

L. F. FRANTZ, Calgary, Alberta	President
M. C. DEANS, Toronto, Ontario	Vice-President
M. F. STRONG, Calgary, Alberta	Vice-President
H. M. BURGESS, Calgary, Alberta	Secretary
T. S. M. GARD, Calgary, Alberta	Treasurer

Registrars and Transfer Agents

CROWN TRUST COMPANY Toronto and Calgary

Legal Counsel

CHAMBERS, MIGHT, SAUCIER, MILVAIN, PEACOCK,
JONES AND BLACK Calgary, Alberta

Auditors

CLARKSON, GORDON & Co. Calgary, Alberta

Highlights

	Year Ended May 31 1958
Gross Income (After Royalties)	\$ 228,947
Expenditures on Exploration and Development	\$ 224,398
Working Capital	(\$ 115,245)
Crude Oil Production - Net Barrels	107,953
Number of Western Naco Interest Wells Drilled	14
Footage Drilled	42,971
	As At August 31 1958
Number of Oil Wells - Net	14.49
Number of Gas Wells - Net	1.4
Estimated Proven Oil Reserves - Net Barrels	1,000,000
Estimated Proven Gas Reserves - Net billion cubic feet	4.6
Acreage Owned - Gross Acres	219,124
Acreage Owned - Net Acres	53,806



REPORT of THE DIRECTORS

August 31, 1958.

TO THE SHAREHOLDERS:

Your Directors present herewith the financial statements of your Company for the year ended May 31, 1958 together with a report on operations to August 31, 1958.

DRILLING

Your Company participated in the drilling of 14 wells during the year ended May 31, 1958. This drilling resulted in 8 successful development wells equivalent to 2.91 net wells and 6 dry holes equal to 2.25 net dry holes. The majority of the Company's drilling operations was centered in the Hughenden area of Alberta.

PRODUCTION

Western Naco's net production was 107,953 barrels, a 9.8% decrease from the 119,728 barrels produced in the year ended May 31, 1957. The increased production from the new wells drilled during the year was more than offset by substantial decreases in market allowables.

As at August 31, 1958, Western Naco held interests in 48 oil wells and 4 capped gas wells, equivalent to 14.49 net oil wells and 1.4 net gas wells. Details of these producing properties are given on page 6 of this report.

FINANCIAL

Your Company's gross income (after royalties) for the year ended May 31, 1958 was \$228,947,

compared with \$222,387 in the previous year. This slight increase was due to a higher net wellhead price for crude oil. Capitalized expenses for the year amounted to \$209,120 which included non-productive drilling costs of \$71,490.

Working capital showed a deficit of \$115,245 compared with a surplus of \$146,625 a year ago.

During the year, the Company's outstanding 5½% Secured Convertible Debentures were further reduced to \$368,500 by conversion to common shares.

LAND

Western Naco's land holdings on August 31, 1958, amounted to 219,124 gross acres equivalent to 53,806 net acres compared with 1,310,222 gross acres and 171,998 net acres at the same date last year. The substantial decrease in acreage results from the surrender of large blocks of partially tested permit acreage in northern Saskatchewan.

OIL AND GAS RESERVES

Western Naco's net proven reserves of medium and high gravity oil at August 31, 1958 are estimated to be 1,000,000 barrels. Excluded from this figure are probable reserves at Midale and in the Lower Cretaceous at Drumheller, as well as all oil reserves at Hughenden. Production experiments on the producing wells at Hughenden are continuing.

The Company's net proven gas reserves are estimated at 4.6 billion cubic feet.

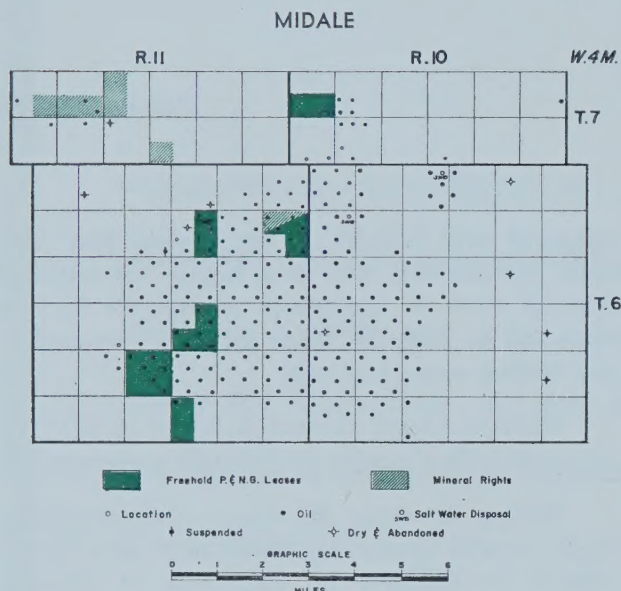
EXPLORATION AND DEVELOPMENT

The following is a summary of the Company's operations during the year under review:

SASKATCHEWAN

Midale

Two successful development Midale wells were drilled during the past year. They are both located



on a 1,200-acre freehold lease in which Western Naco holds an 18% interest. Three additional producers were recently completed on this lease as a result of offset obligations accruing in the field. Your Company now holds interests in 15 gross wells, equivalent to 2.74 net wells in this field.

Whiteside

One development well was drilled at Whiteside on acreage in which your Company holds a 5% interest. The well was completed in late 1957 as a successful Viking producer.

Ravenhead

Seismic work on this 651,448-acre block of permits was completed by a farmee in 1957. Your Company then participated to the extent of 10% in drilling a test well. This well, Dome Spiritwood No. 14-29, resulted in a dry hole and 15,879 acres of lease were selected before the permits were surrendered.

Melfort

In 1956 a well was drilled on this property by a farmee, at no cost to your Company. No work was carried out on these permits during the current year although other land holders in the immediate vicinity were active. The results obtained by contiguous operators did not justify the retention of the permits in view of increased work requirements and they were surrendered on their anniversary date.

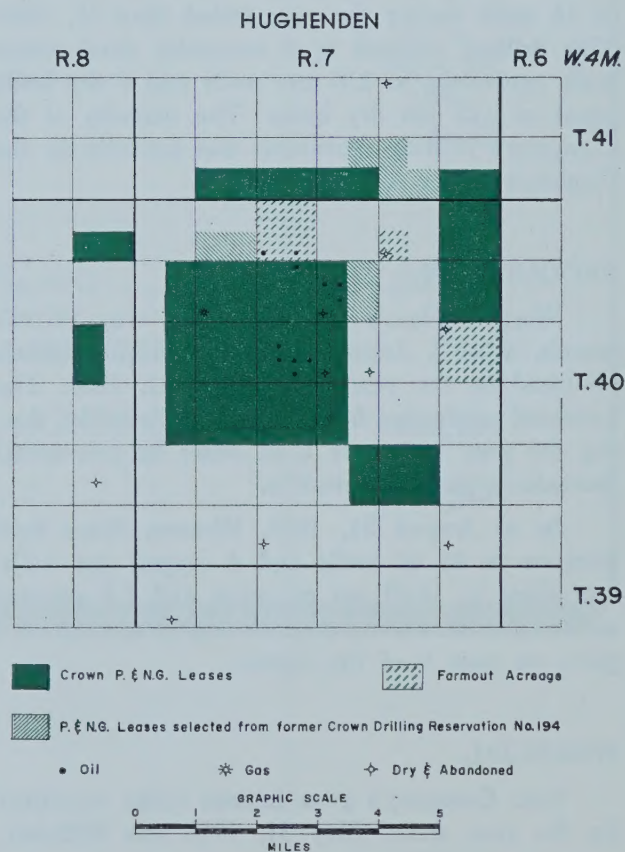
Cabri Lake

Under farmout from Western Naco and Dome, a farmee drilled an unsuccessful well on the Company's 36,000-acre permit in this area. As a result of the interest earned by the farmee, your Company's interest has been reduced from 20% to 15%. A lease selection has now been made and the permit surrendered.

ALBERTA

Hughenden

Drilling continued at Hughenden in the vicinity of the northern pool and resulted in 5 additional producers and 3 dry holes for the year ended May 31, 1958. There are now a total of 11 producing wells in the field. Two of the new oil



wells also yielded significant gas shows in upper horizons. The dry holes that were drilled during the year were step-out wells to evaluate the drilling reservation prior to lease selection and to earn additional acreage under farmout.

The production from this field has been disappointing and further work is being carried out to improve production efficiency. The results to date have been encouraging, but until more conclusive results are available it is difficult to predict the extent to which the substantial amount of oil in place in this field will be economically recoverable.

In the Czar area, some six miles east of the Hughenden production, Western Naco and Provo Gas Producers jointly earned a 100% interest, subject to a 25% net carried interest, in 19,800 reservation acres by drilling an exploratory dry hole. Following abandonment of this well, Home Oil Company Limited was granted a shooting option to carry out a seismic program on these lands. An extension of the reservation has been obtained until December of this year and the work is progressing satisfactorily. The farmee may earn 50% of the interest now held by Western Naco and Provo Gas by drilling a test well to the Paleozoic.

Fort McMurray

Western Naco holds a 10% interest in a 49,767-acre Crown Bituminous Sands Prospecting Permit in this region. A core hole program was completed during the winter months and preparations are underway for further work during the coming winter season.

Wabiskaw

Western Naco held a 20% interest in a 59,784-acre Crown Petroleum and Natural Gas Reservation which was farmed out to Triad Oil Company Limited. During the past year Triad completed its exploratory program and surrendered its option on this reservation. A lease selection was made based on Triad's work and the remainder of the reservation surrendered.

Respectfully submitted,

ON BEHALF OF THE BOARD

A handwritten signature in green ink, appearing to read "L. F. Frantz", with a stylized flourish at the end.

L. F. FRANTZ, President.

Acreage Position

(As at August 31, 1958)

PRODUCING PROPERTIES

PRODUCING PROPERTIES			Productive or Potentially Productive Wells		Status
	Acreage		Gross	Net	
	Gross	Net			
ALBERTA					
P. & N.G. Lease					
Drumheller	520	260	10	5	7 producing oil, 1 suspended and 2 shut in
Hughenden	440	220	11	5.5	Producing oil
Gross Royalty					
Bentley	640	10	—	—	Producing oil
SASKATCHEWAN					
P. & N. G. Lease					
Midale	1,200	219	15	2.74	Producing oil
Whiteside	240	12	3	.15	Producing oil
Mineral Rights					
Steelman	160	80	—	—	Producing oil
Halbrite	80	40	—	—	Producing oil
MANITOBA					
P. & N. G. Lease					
North Virden	320	36	8	.9	Producing oil
East Hargrave	40	8	1	.2	Producing oil
Mineral Rights					
North Virden	160	8	—	—	Producing oil
East Hargrave	40	2	—	—	Producing oil
TOTAL PRODUCING	3,840	895	48	14.49	

NON-PRODUCING PROPERTIES

ALBERTA				Acreage	
Crown P. & N. G. Lease	Twp.	Rge.	W. Mer.	Gross	Net
Drumheller	29	19, 20	4	3,417	1,432
Turner Valley	18	1	5	3,190	3,190
Hughenden	40, 41	5, 6, 7, 8	4	16,922	12,302
Ellscoott	64, 65	19, 20	4	5,131	256
Hanna	31	12	4	322	32
Manyberries	3	4, 5	4	4,492	225
Michel Indian Reserve No. 132	54	27	4	3,924	785
Jasper Place	53	25	4	205	20
Moose Lake	60	6	4	1,603	160
Wabiskaw	83, 84	25	4	12,160	2,432
Crown P. & N. G. Reservation					
Hughenden	40, 41	5, 6	4	19,800	9,900
Crown Bituminous Sands Prospecting Permit					
Fort McMurray	98	10, 11, 12, 13	4	49,767	4,977
Freehold P. & N. G. Lease					
Hughenden	40	7	4	700	350
Jasper Place	53	25	4	1,869	188
Michel Indian Reserve	54	26	4	453	90
Freehold Petroleum Lease					
Jasper Place	53	25	4	160	16
Gross Royalty	Scattered			11,881	552
TOTAL - ALBERTA NON-PRODUCING				135,996	36,907

SASKATCHEWAN

Crown P. & N. G. Lease

Whiteside	3,591	307
Kindersley	1,920	384
Cabri Lake	2,880	432
Pinkham	19,242	1,924
Ravenhead	15,879	1,588

Freehold P. & N. G. Lease

Midale	400	72
Ralph	160	32
Tantallon	1,119	112
Wapella	640	64

Mineral Rights - Scattered	3,392	1,696
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TOTAL - SASKATCHEWAN - NON-PRODUCING	49,223	6,611
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MANITOBA

Crown P. & N. G. Lease

Lazare	3,200	320
Regent	323	65
Two Creeks	160	32

Freehold P. & N. G. Lease

Hargrave	1,880	284
Lazare	320	32
Plum Lake	626	63
Regent	640	68
Two Creeks	2,228	366
South Whitewater Lake	640	68
Scattered	642	642

Mineral Rights - Scattered	9,504	4,482
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TOTAL - MANITOBA - NON-PRODUCING	20,163	6,422
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BRITISH COLUMBIA

Crown P. & N. G. Lease	9,902	2,971
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TOTAL - BRITISH COLUMBIA - NON-PRODUCING	9,902	2,971
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TOTAL NON-PRODUCING	215,284	52,911
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GRAND TOTAL ACREAGE	219,124	53,806
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BRITISH COLUMBIA

ALBERTA

NORTH

LEGEND

RESERVATION OR PERMIT	
SCATTERED P.N.G. LEASES & MINERAL RIGHTS	
P.N.G. LEASES & GAS LICENSES OR LEASES	
OILFIELDS & SIGNIFICANT OIL DISCOVERIES	
GASFIELDS & SIGNIFICANT GAS DISCOVERIES	
PROPOSED OIL PIPELINES	
EXISTING OIL PIPELINES	
PROPOSED GAS PIPELINES	
EXISTING GAS PIPELINES	

GRAPHIC SCALE

40 0 40 80 120

MILES

Westcoast Gas Transmission Pipeline

Trans-Mountain

CRESTON

UNITED

ERRITORIES

WESTERN NACO PETROLEUMS LIMITED

HOLDINGS IN WESTERN CANADA

SASKATCHEWAN

MANITOBA



Western Naco Petroleums Limited

(Incorporated under the laws of Alberta)

ASSETS

	1958	1957
CURRENT:		
Cash	\$ —	\$ 53,019.89
Accounts receivable	207.75	85.31
Due from Dome Petroleum Limited	10,552.33	7,529.90
Government of Canada bonds at cost plus accrued interest	—	156,250.00
	<u>\$ 10,760.08</u>	<u>\$ 216,885.10</u>
 FIXED - AT COST:		
Lease and development costs -		
Producing wells	\$ 749,038.50	\$ 569,223.78
Shut in wells	114,855.32	137,038.66
Wells in progress	—	4,723.47
	<u>\$ 863,893.82</u>	<u>\$ 710,985.91</u>
Production and other equipment	265,761.92	183,012.40
Undeveloped petroleum and natural gas reservations, leases and royalties	393,328.04	340,682.90
Exploration and other expenditures, net (Note 1)	129,854.32	149,682.17
Office furniture and equipment	1,035.32	1,035.32
	<u>\$ 1,653,873.42</u>	<u>\$ 1,385,398.70</u>
 OTHER:		
Reservation and drilling deposits	\$ 7,500.00	\$ 8,237.13
Debenture discount and expense less amounts written off	\$ 29,253.31	\$ 33,912.49
	<u>\$ 36,753.31</u>	<u>\$ 42,149.62</u>
	<u>\$ 1,701,386.81</u>	<u>\$ 1,644,433.42</u>

BALANCE SHEET - May 31, 1958

(With comparative figures at May 31, 1957)

LIABILITIES and CAPITAL

CURRENT:

	1958	1957
Bank loan and overdraft (secured)	\$ 104,098.48	\$ —
Accounts payable	13,489.13	60,680.71
Accrued debenture interest	8,417.30	9,579.15
	<u>\$ 126,004.91</u>	<u>\$ 70,259.86</u>

FUNDED DEBT (Note 2):

5½% Secured Convertible Debentures due July 1, 1970 (subject to sinking fund) — Authorized - \$2,500,000 Issued and outstanding	\$ 368,500.00	\$ 418,000.00
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CAPITAL (Note 3):

Authorized - 4,000,000 shares of no par value Issued - 1,087,985 shares	\$ 1,206,881.90	\$ 1,156,173.56
	<u>\$ 1,701,386.81</u>	<u>\$ 1,644,433.42</u>

Approved on behalf of the Board:

L. F. FRANTZ, *Director*

M. F. STRONG, *Director*

AUDITORS' REPORT

To the Shareholders of
Western Naco Petroleum Limited.

We have examined the balance sheet of Western Naco Petroleum Limited as at May 31, 1958 and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at May 31, 1958, according to the best of our information and the explanations given to us and as shown by the books of the company.

Calgary, Alberta.
August 22, 1958.

CLARKSON, GORDON & CO.
Chartered Accountants.

Western Naco Petroleums Limited

Notes To Balance Sheet - May 31, 1958

1. The company has adopted a policy of capitalizing all expenses less income received pending more substantial development of its properties. In conjunction with this policy no provision has been made for depreciation of equipment, depletion of costs applicable to producing properties or for amortization of exploration and development expenditures.

The capitalized expenses and the income deducted therefrom for the period from inception of the company to May 31, 1958 are as follows:—

	Balance May 31, 1957	Additions during the year	Balance May 31, 1958
EXPENSES:			
Non-productive drilling	\$443,253.22	\$ 71,489.57	\$ 514,742.79
Administrative and general	169,504.25	29,161.68	198,665.93
Production expenses	235,104.21	80,445.84	315,550.05
Leases written off	21,427.67	271.45	21,699.12
Organization expense and expense of share issue	22,612.57	—	22,612.57
Debenture and bank loan interest	70,009.02	21,141.90	91,150.92
Amortization of debenture discount and expense	35,141.77	4,659.18	39,800.95
Loss on sale of investments	1,024.98	1,950.00	2,974.98
	<u>\$998,077.69</u>	<u>\$209,119.62</u>	<u>\$1,207,197.31</u>
INCOME:			
Crude oil sales	\$776,627.47	\$221,941.89	\$ 998,569.36
Income from royalty interests	1,982.62	6,347.38	8,330.00
Rental of drilling rig	6,074.50	—	6,074.50
Interest earned	31,880.81	658.20	32,539.01
Profit on disposal of equipment (net)	8,427.77	—	8,427.77
Discount on settlement of deferred accounts with Dome Petroleum Limited	23,402.35	—	23,402.35
	<u>\$848,395.52</u>	<u>\$228,947.47</u>	<u>\$1,077,342.99</u>
Net expenses or (income)	<u>\$149,682.17</u>	<u>\$ (19,827.85)</u>	<u>\$ 129,854.32</u>

2. During the year \$49,500 par value of 5½% Secured Convertible Debentures were converted into capital stock. Under the provisions of the Deed of Trust and Mortgage securing the debentures, redeemed and converted debentures may be applied in satisfaction of future sinking fund instalments. At May 31, 1958 the unused sinking fund credits thus established amounted to \$317,589.69, of which \$37,807.68 will be used for the sinking fund instalment due July 31, 1958 .

3. 30,425 shares of capital stock were issued during the year as follows:—

29,700 shares on conversion of \$49,500 par value 5½% Secured Convertible Debentures	\$49,500.00
725 shares on exercise of option	1,208.34
<u>30,425</u>	<u>\$50,708.34</u>

The following options were outstanding at May 31, 1958:

- (a) An option to Dome Petroleum Limited to purchase on or before December 31, 1962, 500,000 shares of the capital stock of the company at \$2.00 per share until June 30, 1960 and thereafter at \$2.50 per share. The option in respect of 400,000 shares is exercisable at the present time while the option in respect of the remaining 100,000 shares will be exercisable on June 1, 1959 providing the company's management contract with Dome has not been terminated.
- (b) An option to underwriters of the 5½% Secured Convertible Debentures to purchase 82,173 shares of the capital stock at \$2.00 per share until June 30, 1960 and thereafter at \$2.50 per share until December 31, 1962.

184,250 shares of capital stock have been reserved for conversion of the outstanding 5½% Secured Convertible Debentures.

Schedule of Administrative and General Expenses
For the Year Ended May 31, 1958

Management fee	\$15,000.00
Transfer agent's fees	2,291.67
Salaries	2,500.00
Professional fees	2,075.55
Office supplies, stationery and printing	3,682.09
Travelling	527.04
Telephone and telegraph	972.96
Miscellaneous expense	1,515.04
Maps and blueprints	46.51
Listing fees	100.00
Bank charges and exchange	137.76
Insurance - general	25.00
Donations	288.06
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	\$29,161.68
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Western Naco Petroleums Limited

Schedule of Wells drilled during year ended May 31, 1958

<i>Name of Well</i>	<i>Land Description</i>	<i>Naco's Interest</i>	<i>Total Depth</i>	<i>Results</i>
ALBERTA				
Provo Naco Hughenden #12-27	12-27-40-7 W4	50%	2798'	Basal Quartz oil well
Provo Naco Hughenden #4-22	4-22-40-7 W4	50%	2960'	Abandoned
Provo Naco Hughenden #11-27	11-27-40-7 W4	50%	2800'	Basal Quartz oil well
Provo Naco T.E.O. Hughenden #13-24	13-24-40-7 W4	25%	2985'	Abandoned
Provo Naco Hughenden #15-28	15-28-40-7 W4	50%	2800'	Basal Quartz oil well
Provo Naco Husky Hughenden #2-33	2-33-40-7 W4	50%	2960'	Basal Quartz oil well
Provo Naco Hughenden #1-22	1-22-40-7 W4	50%	2927'	Abandoned
Provo Naco Hughenden #4-33	4-33-40-7 W4	50%	2797'	Basal Quartz oil well
Provo Naco Kroy Ozar #3-14	3-14-40-6 W4	50%	2925'	Abandoned

SASKATCHEWAN

Provo Cabri Lake #7-9	7-9-25-28 W3	15%	2518'	Abandoned
Dome Spiritwood #14-29	14-29-50-11 W3	10%	2517'	Abandoned
Dome Naco Midale #13-9	13-9-6-11 W2	18%	4701'	Midale oil well
Dome Naco Midale #11-9	11-9-6-11 W2	18%	4703'	Midale oil well
Husky Phillips Dome Whiteside #15-11	15-11-30-26 W3	5%	2580'	Viking oil well

Wells drilled in period June 1, 1958 to August 31, 1958

Dome Naco Midale #7-9	7-9-6-11 W2	18%	4,730'	Midale oil well
Dome Naco Midale #1-9	1-9-6-11 W2	18%	4,718'	Midale oil well
Dome Naco Midale #13-3	13-3-6-11 W2	18%	4,727'	Midale oil well

